

AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the executive budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but an explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate-setting.

GENERAL GOVERNMENT AND TRANSPORTATION (Section A)

- Legislative Branch
- Consumer Counsel
- Judiciary
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Transportation
- Revenue
- Administration
- Consensus Council
- Appellate Defender Commission
- Montana Consensus Council

HEALTH AND HUMAN SERVICES (Section B)

- Public Health and Human Services

NATURAL RESOURCES AND COMMERCE (Section C)

- Fish, Wildlife, and Parks
- Environmental Quality
- Livestock
- Natural Resources and Conservation
- Agriculture
- Commerce

CORRECTIONS AND PUBLIC SAFETY (Section D)

- Crime Control Division
- Justice

CORRECTIONS AND PUBLIC SAFETY (continued)

- Public Service Regulation
- Corrections
- Labor and Industry
- Military Affairs

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Commissioner of Higher Education
- Community Colleges
- University Units and College of Technology
- Agricultural Experiment Station
- Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines & Geology
- Fire Services Training School
- Montana Arts Council
- State Library Commission
- Montana Historical Society

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- State Building Energy Conservation
- Treasure State Endowment Program
- Treasure State Endowment Regional Water System
- Renewable Resource Grant & Loan Program
- Reclamation & Development Grant Program
- Cultural and Aesthetic Grant Program

AGENCY BUDGET ANALYSIS (ROAD MAP)

The purpose of the “Agency Budget Analysis” (LFD Volumes 3 and 4) is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the executive budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget.
2. Present law budget.
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the “Reference” section in Volume 1, or the publication entitled “Understanding State Finances and the Budgeting Process”, available through the Legislative Fiscal Division and on the Internet at <http://leg.mt.gov/css/fiscal/reports.asp>) The analysis is presented in such a way as to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the executive budget, by summarizing and raising issues with those adjustments.

LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the executive budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the executive budget or with any other aspect of agency operations and expenditures, it is included as an “LFD Issue”. The analyst may also provide additional information to aid the legislature in its decision making under the heading “LFD Comment”. All issues and comments are clearly identified in the narrative.
2. Other issues and options. In order to provide the legislature with alternatives to the executive budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

The agency narrative.

The program narrative.

Agency Narrative

The agency narrative provides an overview of the executive budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the executive budget request by year, including separate columns showing present law adjustments and new proposals. The reader can use this table to not only get a general idea of the size and funding of the agency, but also view any changes proposed by the Governor.
2. **Agency Description** is a brief description of the agency.
3. **Agency Highlights** is a table showing the principal factors influencing the budget and any related discussion. It is designed to aid the reader in gaining an understanding of the overall agency budget or significant budget areas.
4. **Agency Discussion** provides additional information or overarching discussion.
5. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
6. **Biennium Budget Comparison Table** compares adjusted actual fiscal 2004 expenditures and appropriations for fiscal 2005 (the 2005 biennium base) to the 2007 biennium executive budget so the reader can get a general sense of the change between biennia.
7. If included by the executive, a discussion of the following two types of proposals is included, each with LFD comments as appropriate:
 - **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for fiscal 2005, or supplemental appropriations approved in fiscal 2004
 - **Reorganizations** details any major reorganization that took place in the 2005 biennium or is proposed by the executive for the 2007 biennium
8. **New Proposals Summary Table** summarizes all executive new proposals for the agency. An explanation of and comments on each of the new proposals is included in the relevant program narratives.
9. **Language** includes any agency-wide language proposed by the executive.
10. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.
11. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
12. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the executive budget.

Note: The main and biennial budget comparison tables, the agency description, and the highlights and funding tables are included in each agency narrative. However, the other components are “optional”, indicating they are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including the adjusted fiscal 2004 base used to derive the budget, the total present law adjustments, new proposals, and the total executive budget, by fiscal year.
2. **Program Description** is a short description of the program and its functions.
3. **Program Highlights** is a table showing the principal factors influencing the budget and any related discussion.
4. **Program Narrative** details any points of overall program discussion by the LFD analyst.
5. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
6. **Program Reorganization** details any program reorganizations that took place in the 2005 biennium or that are proposed by the executive for the 2007 biennium.
7. The **Executive Present Law Adjustments Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
 - Statewide present law adjustments, which include most personal services adjustments, the executive's vacancy savings recommendation, and adjustments due to fixed costs and inflation
 - Other present law adjustments proposed by the executive
8. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The LFD analyst writes the adjustment descriptions based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
9. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.
10. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive.
11. **Language** recreates any program specific language proposed by the executive, with LFD comments as appropriate.
12. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the program.
13. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service

rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following.

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through fiscal 2007.
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

STATEWIDE PRESENT LAW ADJUSTMENTS

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

Personal Services

Personal services costs are derived by taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the 2007 biennium personal services costs different from actual fiscal 2004 costs. The most important are:

2005 Biennium Pay Plan and Other Benefits

The 2003 legislature adopted a pay plan that, among other features, provided two increases.

1. An overall increase in pay of \$0.25 per hour beginning January 1, 2005.
2. An increase in insurance rates in each year of the biennium.

Since the pay plan was increased in fiscal 2005 and not fully implemented in the base year, adjustments were made to each employee’s compensation to reflect actual agency costs in the 2007 biennium. In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers’ compensation insurance, are automatically reflected in the present law personal services.

Vacancy Savings

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in fiscal 2004.

Termination Pay

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

Classification Upgrades/Downgrades

All upgrades and downgrades of individuals or classes of positions authorized during the biennium through the “snapshot” date (June of fiscal 2004) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue.

Vacancy Savings

The executive has proposed a 4 percent vacancy savings rate on all salaries and benefits, including insurance, for most positions. Exempted positions include university system faculty, and those in agencies with fewer than 20 full-time equivalent positions, the Judiciary, and the Legislative Branch.

Inflation/Deflation

The executive budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the executive budget has been included in the “Reference” section.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as data network fees, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Natural Resources Subcommittees will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the “Reference” section of Volume 1.

AGENCY BUDGET HIGHLIGHTS

The following summarizes the main budget highlights of the 2007 biennium executive budget. Please note that the following discussion pertains to HB 2 expenditures only. HB 2 appropriates over 80 percent of all general fund. However, reimbursements to local governments under HB 124 passed by the 2001 legislature are statutorily appropriated and are therefore not part of the following discussion.

As shown, the Governor proposes a general fund budget of \$2.5 billion, a \$228 million increase (9.9 percent) over the 2005 biennium, and a total funds budget of \$6.9 billion, a \$655 million increase (10.5 percent).

Proposed Executive Budget by Program Area - HB 2 2005 to 2007 Biennia				
--- General Fund ---				
Component	Executive Budget	Increase Over 2005	Percent Increase	Percent of Increase
K-12 Education	1,057,188,753	28,211,249	2.7%	12.4%
Higher Education	300,404,277	22,418,273	8.1%	9.8%
Corrections	234,784,069	24,136,082	11.5%	10.6%
Human Services	603,549,186	83,037,987	16.0%	36.4%
All Other Government Agencies	329,671,956	70,071,465	27.0%	30.7%
Total	2,525,598,241	227,875,056	9.9%	
--- Total Funds ---				
Component	Executive Budget	Increase Over 2005	Percent Increase	Percent of Increase
K-12 Education	1,356,419,284	47,253,746	3.6%	7.2%
Higher Education	420,802,046	29,297,659	7.5%	4.5%
Corrections	242,235,111	25,161,628	11.6%	3.8%
Human Services	2,569,004,373	334,204,352	15.0%	51.1%
All Other Government Agencies	2,271,485,786	218,714,585	10.7%	33.4%
Total	<u>6,859,946,600</u>	<u>654,631,970</u>	10.5%	

PRIMARY BUDGET FACTORS

The following summarizes the primary factors causing the change in funding:

- General fund would increase by \$228 million, or 9.9 percent, over the 2005 biennium. Major causes of the increase include the following:
 - Human services caseload and service changes, and an increase in the percentage of Medicaid costs the state must pay
 - One-time expenditures for completion of information technology projects and payoff of debt used to acquire the current revenue system

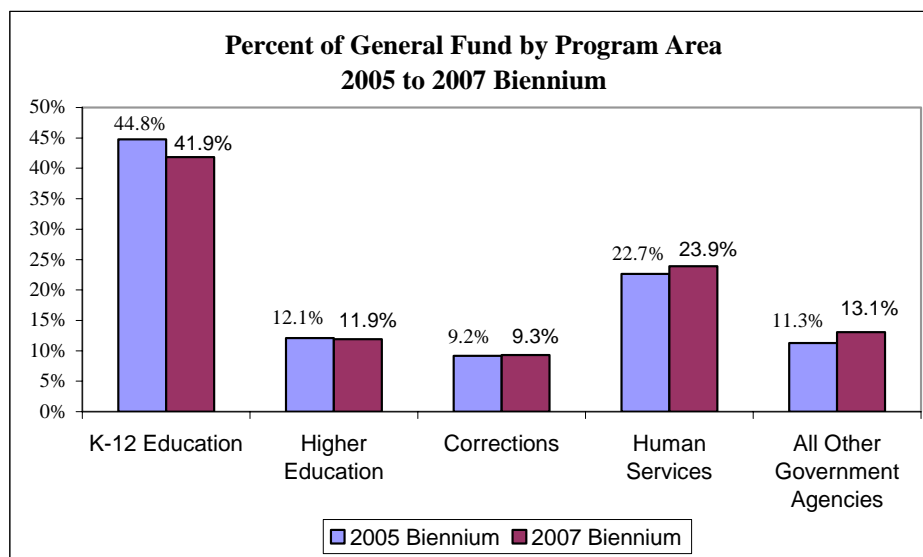
- Economic development initiatives and vocational technical equipment in the Montana University System
- Additional contract beds (private prisons and pre-release), as well as additional probation and parole officers to address correctional population growth
- K-12 education inflationary adjustments in Base Aid, as well as increases in a number of programs
- Statewide present law adjustments
- Total funds would increase by \$654.6 million, or 10.6 percent. Human services is over half of this increase, due primarily to
 - Increases in Medicaid caseload and services
 - Medicaid redesign, which utilizes existing state resources to increase coverage
 - Continued use of various provider assessments (i.e. hospital tax) to increase federal funds
 - Additional food stamp costs and TANF activities

Other Factors

- 106.09 FTE in fiscal 2006 and 91.16 FTE in fiscal 2007 would be added--This total is the net after reductions in a number of agencies to continue and make permanent personal services reductions approved by the 2003 Legislature
- The Governor does not include any funding for initiatives to address the recent court rulings on the school funding lawsuit
- No anticipated federal funds for homeland security for distribution by the Department of Military Affairs are included

COMPARISON OF PROGRAM AREAS

The following figure shows the allocation of general fund by program area for the 2007 biennium compared to the 2005 biennium.



- The K-12 education share of the general fund budget continues to fall, primarily due to continued declines in average number belonging (ANB) upon which the Base Aid calculation is made
- Human services and corrections continue to increase, due largely to caseload growth. In addition, the share of Medicaid expenditures that must be made by the state has increased
- “All other government agencies” continue to consume a larger share of general fund; however, this increase is somewhat misleading, as the Governor is recommending one-time information technology and other initiatives in the Departments of Revenue and Administration, including
 - Payoff of the loan used to finance the Integrated Revenue Information System (IRIS)
 - Complete the replacement of POINTS with IRIS
 - Funding of a property tax replacement system
 - Funding of emergency telecommunications infrastructure

SOURCE OF FUNDING

The following figure illustrates that, in keeping with a trend for a number of years, federal funds continue to represent a greater share of state funding while the general fund, while growing, assumes a smaller share. This change is the smallest reallocation of funding sources in several biennia, however, in part due to the almost 10 percent increase in general fund spending, and the reduction in the Medicaid matching rate, which increases general fund responsibility for Medicaid benefits costs.

